

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

PA-04 PRS-01 USIA-15 DRC-01 /171 W

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R 081848Z MAR 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8560

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 03025

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MARCH 8

BEGIN SUMMARY: FINANCIAL MARKETS INITIALLY REACTED FAVOR-
ABLY TO INSTALLATION OF WILSON GOVERNMENT AND END OF
POLITICAL UNCERTAINTY. WEEK SAW END OF MINERS' STRIKE,
ANNOUNCEMENT OF RETURN TO FIVE-DAY WEEK, FALL OF \$212
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MILLION IN RESERVES, INDICATION THAT MANUFACTURING INVEST-

MENT ROSE 6 PERCENT IN FOURTH QUARTER 1973, BUT THAT RETAIL SALES HAD FALLEN IN JANUARY. FINANCIAL TIMES BUSINESS OPINION POLL SHOWED CONFIDENCE AT VERY LOW LEVEL. NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH REVIEW DESCRIBED ECONOMIC SITUATION AS MORE CONFUSED THAN AT ANY TIME IN 15 YEARS OF REVIEW'S HISTORY. DURING WEEK, POUND STRENGTHENED AGAINST DOLLAR. IT CLOSED AT \$2.3050 ON THURSDAY, FEBRUARY 28 (ELECTION DAY), FELL TO \$2.28 RANGE ON FRIDAY AND MONDAY, ROSE TO \$2.32-\$2.33 RANGE WHEN NEW GOVERNMENT FORMED, CLOSED AT \$2.3212 ON THURSDAY, MARCH 7. TRADE WEIGHTED DEVALUATION NARROWED FROM OVER 18 PERCENT ON FEBRUARY 28, 18.7 PERCENT ON MARCH 4, TO CLOSE AT 17.4 PERCENT ON MARCH 7. GOLD CLOSED AT \$168.00 ON MARCH 7, UP \$5.00 FROM PREVIOUS THURSDAY. END SUMMARY

1. FOR EMBASSY ASSESSMENT OF INITIAL ECONOMIC IMPLICATIONS OF LABOUR'S VICTORY SEE LONDON 2963. HIGHLIGHTS OF NIESR FORECAST IN LONDON 2973.

2. UK OFFICIAL RESERVES FELL BY \$212 MILLION IN FEBRUARY TO STAND AT \$5,966 MILLION AT THE END OF THE MONTH. RESERVE FIGURES INCLUDE \$20 MILLION OF FOREIGN CURRENCY BORROWING BY THE PUBLIC SECTOR, BRINGING THE TOTAL SINCE MARCH 1973 TO \$2,520 MILLION. CONVERTED AT 1 POUND EQUALS \$2.3050 (THE CLOSING RATE ON FEBRUARY 28) THE FALL IN RESERVES WAS EQUAL TO 92 MILLION POUNDS AND TOTAL RESERVES EQUAL TO 2,588 MILLION POUNDS; CONVERTED AT THE PARITY RATE OF 1 POUND EQUALS \$2.89524 THE FIGURES ARE 73 MILLION POUNDS AND 2,061 MILLION POUNDS RESPECTIVELY.

3. MANUFACTURING INVESTMENT ROSE IN FOURTH QUARTER 1973 TO 487 MILLION POUNDS (483 MILLION POUNDS IN THIRD QUARTER, S.A., CONSTANT 1970 PRICES) PUTTING MANUFACTURING INVESTMENT 6 PERCENT HIGHER IN 1973 WHEN COMPARED TO 1972. TOTAL INVESTMENT WAS UP 5.2 PERCENT, REACHING A LEVEL OF

1972.

4. THE INDEX FOR THE VOLUME OF RETAIL SALES FELL NOTICEABLY IN JANUARY TO STAND AT 109.5 (S.A., 197L100) COM-
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PARED TO 112.3 IN DECEMBER. THERE WAS ALSO A DOWNTURN IN HIRE-PURCHASE AND OTHER INSTALLMENT CREDIT BUSINESS. NEW CREDIT EXTENDED WAS DOWN 10 PERCENT TO 198 MILLION POUNDS (220 MILLION POUNDS IN DECEMBER) DUE IN LARGE PART TO NEW HIRE-PURCHASE CREDIT RESTRICTIONS AND LOWER INCOMES BECAUSE OF THE 3-DAY WEEK.

5. ACCORDING TO THE FINANCIAL TIMES SURVEY OF BUSINESS

OPINION - CONDUCTED DURING FEBRUARY - THE VAST MAJORITY OF BRITISH COMPANIES WERE MUCH MORE PESSIMISTIC ABOUT THE ECONOMIC OUTLOOK THAN THEY HAD BEEN A FEW MONTHS EARLIER. FUTURE PROSPECTS FOR OUTPUT, EMPLOYMENT, COSTS AND PROFIT MARGINS ARE ALL SEEN AS DETERIORATING, AND IN GENERAL THE LEVEL OF BUSINESS CONFIDENCE WAS LOWER THAN AT ANY TIME IN THE SEVEN-YEAR HISTORY OF THE SURVEY.

6. THE RESUMPTION OF FIVE-DAY WEEK COULD PLACE SEVERE STRAINS ON BANKING SYSTEM IN ITS EFFORTS TO MEET BORROWING DEMANDS FROM COMPANIES IN LIQUIDITY SQUEEZE. FINANCIAL CIRCLES SPECULATE THAT CREDIT RESTRAINT MEASURES IN

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DECEMBER 17 MINI-BUDGET AIMED AT LIMITING GROWTH OF BANKS' OWN DEPOSITS MAY HAVE TO BE EASED TO RELIEVE TEMPORARY PRESSURE ON BANKING SYSTEM, SUPPLY NEEDED FUNDS TO INDUSTRY.

7. THE FORWARD DISCOUNTS ON STERLING WIDENED APPRECIABLY THEN NARROWED SOMEWHAT TOWARDS THE END OF THE WEEK.

	2/28	1/7	CHANGE
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1 MONTH	1.74	L.90	UP 0.16
3 MONTHS	5.35	5.80	UP 0.45
6 MONTHS	9.50	10.00	UP 0.50

(ALL FIGURES IN CENTS)

8. LOCAL AUTHORITY RATES ROSE SHARPLY DURING WEEK, THREE-MONTH EXCEEDED 17 PERCENT MARCH 6, THEN FELL BACK FROM MID-WEEK HIGHS.

	2/28	1/7	CHANGE
1 MONTH	14-1/2	15-7/8	UP 1-3/8
3 MONTHS	14-3/4	15-3/4	UP 1
6 MONTHS	15	15-1/2	UP 1/2

9. EURO-DOLLAR RATES GENERALLY STABLE.

	2/28	1/7	CHANGE
1 MONTH	8-9/16	8-13/16	UP 1/4
3 MONTHS	8-9/16	8-13/16	UP 1/4
6 MONTHS	8-9/16	8-13/16	UP 1/4

10. MINIMUM LENDING RATE REMAINED UNCHANGED AT 12.5 PERCENT ON FRIDAY, MARCH 8, 1974.

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TAGS: ECON, UK
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